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Annual Report
January 31, 1964

CROWLEY, MILNER
AND COMPANY

Detroit, Michigan

BOARD OF DIRECTORS

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EDWARD H. GRAHAM
JOHN T. HIGGINS
JOHN G. KEYS
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WILLIS B. MANCHESTER

Transfer Agent
THE DETROIT BANK & TRUST COMPANY
DETROIT, MICHIGAN

Registrar—Common Stock
MANUFACTURERS NATIONAL BANK
DETROIT, MICHIGAN

Counsel
DYKEMA, WHEAT, SPENCER, GOODNOW & TRIGG
DETROIT, MICHIGAN

Auditors
ERNST & ERNST
DETROIT, MICHIGAN

CROWLEY, MILNER AND COMPANY

DETROIT, MICHIGAN

TO OUR SHAREHOLDERS:

The annual financial report of Crowley, Milner and Company for the year ended January 31, 1964, is presented herewith. The net profit for the year amounted to $326,211.00 compared with $262,579.00 for the previous year. Financial statements and highlights in comparison with the previous year are shown on the following pages of this report.

Leases have been signed for two new suburban stores, each store to have approximately 126,000 square feet of gross area. One store is located in the Northwest section of the Detroit Metropolitan area at Seven Mile Road at Middlebelt in Livonia, Michigan, and the other on the East side of the Metropolitan area of Detroit at Masonic Boulevard and Gratiot Avenue in Roseville, Michigan. Both stores are part of a large enclosed mall shopping center, each shopping center containing approximately 650,000 square feet of retail store space including a Sears, Roebuck store of approximately 300,000 square feet. The stores are now under construction and are expected to be opened in the early Fall of 1964.

Financing for the stores has been arranged with the Manufacturers National Bank of Detroit, and the Prudential Insurance Company of America. The Bank commitment is for a term loan amounting to $1,200,000 payable over a nine-year period. The balance of our present Insurance Company loan falls due in the amount of $600,000 as of June 1, 1965. Our new arrangement with the Insurance Company provides that the balance of $600,000 is to be paid annually at the rate of $150,000 beginning June 1, 1965. We also have a commitment from the Manufacturers National Bank of Detroit to purchase accounts receivable up to a maximum gross amount of $3,300,000 without recourse.

During the past year, we have completely re-modeled the Fashion floor of our downtown store and have made extensive re-modeling changes on the first floor. We expect to continue such improvements to the downtown store.

We are pleased to inform you that the Directors at a meeting held on March 17, 1964, declared a quarterly dividend of 7½¢ per share on our common stock payable April 30, 1964, to shareholders of record April 24, 1964.

We also wish to take this opportunity to express our appreciation to our employees, customers, suppliers, and shareholders for their continued confidence and goodwill.

Very truly yours,

J. H. Chamberlain

President

March 31, 1964

CROWLEY, MILNER AND COMPANY

DETROIT, MICHIGAN

FINANCIAL HIGHLIGHTS

	Year Ended January 31	
	1964	1963
Operating Results		
Net Sales	$23,050,904	$22,613,711
Income before Income Taxes	656,211	542,579
Federal Taxes on Income	330,000	280,000
Net Profit	326,211	262,579
Cash Dividends on Common Stock	101,831	101,831
Per Share of Common Stock		
Net Profit	.96	.77
Dividends	.30	.30
Net Worth—Book Value	23.46	22.80
Number of Shares Outstanding	339,433	339,433
Financial Position (At End of Year)		
Working Capital	$ 5,983,122	$ 5,783,570
Ratio of Current Assets to Current Liabilities	3.17	3.27
Merchandise Inventories on Lifo Basis	4,017,928	3,865,157
Decrease in Carrying Value of Inventory Resulting from use of Lifo Method of Valuation (Lifo Reserve)	312,462	319,791
Property and Equipment—Net	2,058,750	2,104,428
Provision for Depreciation and Amortization	297,011	290,341
Long-Term Debt	600,000	700,000
Total Trade Accounts Receivable	$ 3,933,767	$ 3,820,399
Less:		
Allowance for Doubtful Accounts	$ 175,000	$ 175,000
Installment Accounts Sold to Bank Without Recourse (including 10% equity)	490,175	579,832
	$ 665,175	$ 754,832
Net Amount	$ 3,268,592	$ 3,065,567

SOURCE AND USE OF FUNDS

	Year Ended January 31	
	1964	1963
Net income for the year	$326,211	$262,579
Add expenses which did not affect net current assets:		
Provision for depreciation and amortization	297,011	290,341
Provision for future income taxes	10,000	10,000
Provided from operations	$633,222	$562,920
Use of funds provided during the year:		
Dividends paid	$101,831	$101,831
Reduction in long-term note payable	100,000	100,000
Additions to equipment and leasehold improvement	251,332	123,138
Net changes in prepaid expenses, non-current assets, etc	(19,493)	51,454
Total use	$433,670	$376,423
Amount retained as an addition to working capital	$199,552	$186,497

FIVE YEAR COMPARATIVE FINANCIAL RECORD

	Year Ended January 31				
	1964	1963	1962	1961	1960
Operating Results					
Net Sales	$23,050,904	$22,613,711	$22,260,517	$24,232,856	$22,941,398
Income before Federal Income Taxes	$ 656,211	$ 542,579	$ 227,816	$ 194,723	$ 177,329
Federal Income Taxes	330,000	280,000	115,000	92,599	56,902
Net Income	326,211	262,579	112,816	102,124*	120,427*
Provision for Depreciation and Amortization	$ 297,011	$ 290,341	$ 281,086	$ 217,366	$ 192,482
Addition to Equipment and Leasehold Improvements	251,332	123,138	133,051	650,100	191,264
Long-Term Debt	600,000	700,000	800,000	900,000	1,000,000
Per Share of Common Stock					
Net Income	.96	.77	.33	.30	.35
Dividends	.30	.30	.30	.30	.30
Net Worth—Book Value	23.46	22.80	22.33	22.30	22.30

*Includes unrealized gain on the sale of real estate (after applicable income taxes) of $13,797 for the year ended January 31, 1961 and $92,706 for the year ended January 31, 1960.

ASSETS

	Jan. 31 1964	Jan. 31 1963
Current Assets		
Cash	$ 1,459,502	$ 1,397,032
Trade accounts receivable, including 10% equity (aggregating $49,018 and $57,983, respectively) in installment accounts sold to bank without recourse, less allowance of $175,000	3,268,592	3,065,567
Inventories on hand and in transit—at cost determined on a last-in, first-out basis by the retail inventory method (less allowances of $140,000 and $131,000, respectively, for purchase discounts)	4,017,928	3,865,157
Total Current Assets	$ 8,746,022	$ 8,327,756
Other Assets		
Investment in parking facility—at cost	$ 446,000	$ 446,000
Miscellaneous accounts	38,301	37,832
Total Other Assets	$ 484,301	$ 483,832
Properties—on the basis of cost—Notes B and E		
Land and buildings owned	$ 724,516	$ 724,516
Buildings and improvements on leased land	4,963,152	4,932,802
Furniture, fixtures, and equipment	2,013,196	1,940,097
	$ 7,700,864	$ 7,597,415
Less allowances for depreciation and amortization	5,642,114	5,492,987
Properties—Net	$ 2,058,750	$ 2,104,428
Leaseholds and Goodwill	1	1
Prepaid Expenses	155,074	175,037
	$11,444,148	$11,091,054

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AND COMPANY

LIABILITIES AND STOCKHOLDERS' EQUITY

	Jan. 31 1964	Jan. 31 1963
Current Liabilities		
Trade accounts payable	$ 1,530,426	$ 1,411,091
Payrolls and payroll deductions	293,802	256,413
Accrued property taxes	381,919	382,470
Federal income taxes—Note D	348,603	286,793
Miscellaneous other taxes	108,150	107,419
Current installment of long-term debt	100,000	100,000
Total Current Liabilities	$ 2,762,900	$ 2,544,186
Long-Term Debt		
Note payable to insurance company, less current installment—Note A	600,000	700,000
Reserve for Future Income Taxes—Note C	117,000	107,000
Stockholders' Equity		
Common Stock, par value $1 per share: Authorized and issued 352,250 shares In treasury—12,817 shares Outstanding—339,433 shares	$ 339,433	$ 339,433
Other capital	2,410,247	2,410,247
Retained income—Note A	5,214,568	4,990,188
Total Stockholders' Equity	$ 7,964,248	$ 7,739,868
Long-Term Lease Commitments—Note B.		
	$11,444,148	$11,091,054

See notes to financial statements.

CROWLEY, MILNER AND COMPANY

STATEMENT OF INCOME

	Year Ended January 31	
	1964	1963
Net sales (including sales of leased departments)	$23,050,904	$22,613,711
Costs and expenses:		
Cost of merchandise sold, workroom costs, and buying and occupancy expenses	$17,554,868	$17,263,195
Publicity, selling, and administrative expenses, less service charges on accounts receivable	4,827,188	4,725,760
Provision for loss on bad debts, less recoveries	30,772	79,327
	$22,412,828	$22,068,282
Operating Income	$ 638,076	$ 545,429
Other income:		
Rental of properties not used in operations, less expenses allocated	$ 46,067	$ 41,343
Miscellaneous	24,366	30,365
Total Other Income	$ 70,433	$ 71,708
	$ 708,509	$ 617,137
Other deductions:		
Interest expense	$ 38,573	$ 59,147
Miscellaneous	13,725	15,411
Total Other Deductions	$ 52,298	$ 74,558
Income Before Federal Income Taxes	$ 656,211	$ 542,579
Federal income taxes	330,000	280,000
Net Income	$ 326,211	$ 262,579

Provision for depreciation of buildings and equipment and amortization of leasehold improvements amounted to $297,011 for 1964 and $290,341 for 1963.

See notes to financial statements.

STATEMENT OF RETAINED INCOME

	Year Ended January 31	
	1964	1963
Balance at beginning of year	$4,990,188	$4,829,440
Net income for the year	326,211	262,579
	$5,316,399	$5,092,019
Cash dividends paid—$0.30 a share	101,831	101,831
Balance at end of year	$5,214,568	$4,990,188

NOTES TO FINANCIAL STATEMENTS

Year ended January 31, 1964

Note A—The note payable to insurance company, as amended, requires a $100,000 payment on June 1, 1964, and $150,000 annually thereafter, with interest at 3½% to June 1, 1965, and 5½% thereafter.

Under date of April 11, 1963, the Company entered into a nine-year loan agreement with a bank for a maximum commitment of $1,200,000 to finance two new leased stores scheduled for opening in September, 1964. The loan, when consummated, will bear interest at 5½% and will require minimum payments ranging from $100,000 to $170,000 annually. Supplemental annual payments will be required equal to twenty-five per cent (twelve and one-half per cent for the year ending January 31, 1965) of an amount computed by subtracting from the sum of net income and depreciation the following deductions: (1) all fixed annual installments of long-term debt; (2) cash dividends of up to $102,000; and (3) $100,000. Among other covenants of the agreement (which are also contained in the insurance company loan agreement) are the following:

1. Net current assets are to be maintained at not less than $4,500,000.
2. Payments of cash dividends may not reduce retained income below $4,800,000. (At January 31, 1964, retained income available for cash dividends aggregated $414,568.)
3. The Company may not acquire or retire any of its Common Stock.
4. "Seasonal indebtedness" for borrowed money may not exceed $1,500,000 and must be completely liquidated for a period of sixty days within each calendar year.

Note B—Leases applicable to the Company's three store locations expire in 1971, 1976, and 1984, with renewal options in two instances. Required rental payments are on a percentage-of-sales basis (plus payment of real estate taxes in two instances) with minimum annual payments of $675,233. Leases applicable to the main store properties require restoration of the dividing walls between the several leased buildings upon expiration of the leases. The cost of such restoration has not been provided for in the financial statements. A portion of the main store properties has been subleased to the Veterans Administration at an annual rental of $220,650, plus payments for certain services. The present lease expires on November 30, 1965, and provides that the Government has the right to cancel on ninety days written notice.

NOTES TO FINANCIAL STATEMENTS *(Continued)*

Lease rentals for two new branch stores are expected to become effective September 1, 1964, and will extend for a period of twenty-five years. Required rental payments are to be on a percentage-of-sales basis (plus payment of real estate taxes) with a combined annual minimum of $354,732.

Note C—For income-tax purposes, the Company uses the declining-balance method of computing depreciation with respect to equipment acquired since February 1, 1959, while continuing depreciation on a straight-line basis for financial accounting purposes. Amounts equivalent to the resulting reductions in federal income taxes are being charged to operations and credited to a reserve for future income taxes.

Note D—In connection with an examination of the federal income tax returns filed by the Company for the three years ended January 31, 1961, the Internal Revenue Service has proposed assessments relating to the timing of deductions for property taxes on leased property. If the Service prevails, additional taxes, and interest thereon to January 31, 1964, would approximate $218,000. The Company believes it can successfully defend its position and, accordingly, no provision for such additional taxes has been made.

Note E—Expenditures to be made for fixtures and equipment at the two new branch stores are estimated at $1,800,000.

ACCOUNTANTS' REPORT

Board of Directors
Crowley, Milner and Company
Detroit, Michigan

We have examined the financial statements of Crowley, Milner and Company for the year ended January 31, 1964. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statements of income and retained income present fairly the financial position of Crowley, Milner and Company at January 31, 1964, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ERNST & ERNST

Detroit, Michigan
March 17, 1964

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